

City of Lincoln Park, Michigan

Financial Report with Supplemental Information June 30, 2003

City of Lincoln Park, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not maintained a complete record of its fixed assets due to the exclusion of certain City-owned land. The value of City-owned land, which has not been determined by the City, should be recorded in the capital assets of the governmental activities.

In our opinion, except for the effects on the financial statements of the omission of the City-owned land as explained in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and City Council
City of Lincoln Park, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln Park, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The budgetary comparison schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 15, the City reclassified debt service activity related to certain sewer debt. The activity was previously reported in a Debt Service Fund, but is now reflected in the Water and Sewer Enterprise Funds. Fund balances and net assets as of June 30, 2002 have been restated. In addition, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of the City of Lincoln Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 26, 2003

City of Lincoln Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Lincoln Park, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2003:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$322,600 this year. The City reacted by reducing overtime and part-time wages, shortening the library's hours of operation by one day, and reducing training expenses and capital purchases.
- Total net assets related to the City's governmental activities decreased by approximately \$1,869,000, due mainly to increases in public works expenditures.
- The City continued utilizing the road millage revenue by spending approximately \$1,975,000 on road repairs this fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Lincoln Park, Michigan as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current assets	\$ 12,253,398	\$ 12,773,549	\$ 2,732,383	\$ 3,021,824	\$ 14,985,781	\$ 15,795,373
Noncurrent assets	<u>46,871,545</u>	<u>48,520,758</u>	<u>34,409,028</u>	<u>34,441,339</u>	<u>81,280,573</u>	<u>82,962,097</u>
Total assets	59,124,943	61,294,307	37,141,411	37,463,163	96,266,354	98,757,470
Liabilities:						
Current liabilities	4,467,837	4,846,902	1,740,019	615,398	6,207,856	5,462,300
Long-term liabilities	<u>3,360,628</u>	<u>3,281,508</u>	<u>14,842,369</u>	<u>17,241,560</u>	<u>18,202,997</u>	<u>20,523,068</u>
Total liabilities	<u>7,828,465</u>	<u>8,128,410</u>	<u>16,582,388</u>	<u>17,856,958</u>	<u>24,410,853</u>	<u>25,985,368</u>
Net assets:						
Invested in capital assets -						
Net of related debt	45,851,544	44,263,400	17,059,150	14,479,031	62,910,694	58,742,431
Restricted	1,590,632	3,189,120	1,515,604	1,847,527	3,106,236	5,036,647
Unrestricted	<u>3,854,302</u>	<u>5,713,377</u>	<u>1,984,269</u>	<u>3,279,647</u>	<u>5,838,571</u>	<u>8,993,024</u>
Total net assets	<u>\$ 51,296,478</u>	<u>\$ 53,165,897</u>	<u>\$ 20,559,023</u>	<u>\$ 19,606,205</u>	<u>\$ 71,855,501</u>	<u>\$ 72,772,102</u>

The City's combined net assets decreased 1.2 percent from a year ago - decreasing from \$72,772,102 to \$71,855,501. As we look at the business-type activities separately from the governmental activities, we can see that the total net assets of the business-type activities increased just over \$952,800, or 4.9 percent.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$1,859,075 for the governmental activities. This represents a decrease of approximately 33 percent. The current level of unrestricted net assets for our governmental activities stands at \$3,854,302, or about 12 percent of expenditures.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue						
Program revenue:						
Charges for services	\$ 3,224,627	\$ 2,866,490	\$ 5,924,963	\$ 5,664,928	\$ 9,149,590	\$ 8,531,418
Operating grants and contributions	4,062,276	4,250,676	-	-	4,062,276	4,250,676
Capital grants and contributions	148,800	234,416	-	-	148,800	234,416
General revenue:						
Property taxes	14,887,133	14,563,544	1,648,906	1,993,880	16,536,039	16,557,424
State-shared revenue	6,025,994	6,348,588	-	-	6,025,994	6,348,588
Unrestricted investment earnings	248,356	343,554	60,127	111,744	308,483	455,298
Franchise fees	421,489	352,690	-	-	421,489	352,690
Transfers and other revenue	11,450	35,463	-	(31,151)	11,450	4,312
Total revenue	29,030,125	28,995,421	7,633,996	7,739,401	36,664,121	36,734,822
Program Expenses						
General government	4,241,082	3,244,721	-	-	4,241,082	3,244,721
Public safety	13,608,144	13,993,848	-	-	13,608,144	13,993,848
Public works	9,528,108	6,540,738	-	-	9,528,108	6,540,738
Community and economic development	1,430,637	1,223,339	-	-	1,430,637	1,223,339
Recreation and culture	2,058,621	2,662,303	-	-	2,058,621	2,662,303
Interest on long-term debt	32,951	61,314	-	-	32,951	61,314
Water and sewer	-	-	6,701,960	6,099,470	6,701,960	6,099,470
Total program expenses	30,899,543	27,726,263	6,701,960	6,099,470	37,601,503	33,825,733
Change in Net Assets	\$ (1,869,418)	\$ 1,269,158	\$ 932,036	\$ 1,639,931	\$ (937,382)	\$ 2,909,089

Governmental Activities

The City's total governmental revenues increased by approximately \$34,700, despite decreases in State-shared revenue. The increase in property taxes of approximately \$324,000 was offset by the decrease in State-shared revenue by approximately \$322,000.

Expenses increased by approximately \$3,173,000 during the year. Increases were led by large increases in health care costs and property insurance rates. To offset this, the City monitored its spending in all other areas, including seasonal hiring, overtime costs, and capital purchases. The City also began a self-funded prescription program to help reduce health care increases.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist mostly of the Water and Sewer Fund. We provide water to residents, which we purchase from the Detroit Water System. We provide sewage treatment through a county-operated sewage treatment plant.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's mayor and Council create funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2003 include the General Fund, the Community Development Block Grant Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety, which incurred expenses of approximately \$13,608,000 in 2003.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The revenue-sharing budget was amended to reflect the March reduction proposed by the State. This reduction, however, will not affect the City until the 2003-2004 fiscal year. The motor pool rentals and cable franchise fee revenues were very favorable this year. In total, the City's departments stayed below budget, resulting in total expenditures of approximately \$77,000 below budget. The library budget was favorable by \$83,000 due to the increase in late fees, which offset the charges from the County.

Capital Asset and Debt Administration

During 2003, the City invested \$602,600 in a broad range of capital assets, including police and other vehicles and equipment for the motor pool and water and sewer system. The City also invested \$1,603,229 in the reconstruction of roads within the City limits.

Economic Factors and Next Year's Budgets and Rates

The City needs to closely monitor further reductions in State-shared revenues as this is the second largest source of revenue to the City. Any further reductions will have a significant impact on the City's General Fund budget.

We anticipate that the water rates will have to increase somewhat in 2004. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2004 to discuss the need for such an increase.

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at (313) 386-1800.

City of Lincoln Park, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 6,488,774	\$ 1,451,429	\$ 7,940,203	\$ 486,874
Receivables:				
Taxes	1,245,822	97,105	1,342,927	-
Customers	-	2,228,250	2,228,250	-
Accrued interest and other	579,988	2,121	582,109	131,050
Due from other governmental units	2,683,316	-	2,683,316	41,608
Internal balances	1,094,314	(1,094,314)	-	-
Deposits and other assets	14,119	-	14,119	-
Inventories	147,065	47,792	194,857	-
Restricted assets (Note 8)	-	3,156,538	3,156,538	-
Capital assets - Net (Note 5)	46,871,545	31,252,490	78,124,035	-
Total assets	59,124,943	37,141,411	96,266,354	659,532
Liabilities				
Accounts payable	1,392,653	621,375	2,014,028	-
Accrued and other liabilities	1,567,292	126,739	1,694,031	-
Due to other governmental units	-	-	-	68,990
Deferred revenue (Note 4)	722,082	-	722,082	131,050
Noncurrent liabilities (Note 7):				
Due within one year	785,810	991,905	1,777,715	-
Due in more than one year	3,360,628	14,842,369	18,202,997	-
Total liabilities	7,828,465	16,582,388	24,410,853	200,040
Net Assets				
Invested in capital assets - Net of related debt	45,851,544	17,059,150	62,910,694	-
Restricted:				
Streets and highways	673,888	-	673,888	-
Debt service	916,744	-	916,744	-
Restricted assets	-	1,515,604	1,515,604	-
Unrestricted	3,854,302	1,984,269	5,838,571	459,492
Total net assets	<u>\$ 51,296,478</u>	<u>\$ 20,559,023</u>	<u>\$ 71,855,501</u>	<u>\$ 459,492</u>

City of Lincoln Park, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,241,082	\$ 245,032	\$ 15,084	\$ -
Public safety	13,608,144	1,522,957	288,935	148,800
Public works	9,528,108	939,203	2,339,663	-
Community and economic development	1,430,637	12,043	1,418,594	-
Recreation and culture	2,058,621	505,392	-	-
Interest on long-term debt	32,951	-	-	-
Total governmental activities	30,899,543	3,224,627	4,062,276	148,800
Business-type activities	6,701,960	5,924,963	-	-
Total primary government	\$ 37,601,503	\$ 9,149,590	\$ 4,062,276	\$ 148,800
Component units:				
Economic Development Corporation	\$ 52,817	\$ 10,876	\$ -	\$ -
Downtown Development Authority	220,125	-	-	-
Total component units	\$ 272,942	\$ 10,876	\$ -	\$ -
General revenues:				
Property taxes:				
City operating and rubbish				
Water main repair				
Retention basin and Downriver sewer system				
Road maintenance				
Downtown Development Authority				
Total property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Gain on sale of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year, as restated (Note 15)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,980,966)	\$ -	\$ (3,980,966)	\$ -
(11,647,452)	-	(11,647,452)	-
(6,249,242)	-	(6,249,242)	-
-	-	-	-
(1,553,229)	-	(1,553,229)	-
(32,951)	-	(32,951)	-
(23,463,840)	-	(23,463,840)	-
-	(776,997)	(776,997)	-
(23,463,840)	(776,997)	(24,240,837)	-
-	-	-	(41,941)
-	-	-	(220,125)
-	-	-	(262,066)
12,266,780	-	12,266,780	-
896,007	-	896,007	-
-	1,648,906	1,648,906	-
1,724,346	-	1,724,346	-
-	-	-	208,039
14,887,133	1,648,906	16,536,039	208,039
6,025,994	-	6,025,994	-
248,356	60,127	308,483	8,652
421,489	-	421,489	-
11,450	-	11,450	-
21,594,422	1,709,033	23,303,455	216,691
(1,869,418)	932,036	(937,382)	(45,375)
53,165,896	19,626,987	72,792,883	504,867
\$ 51,296,478	\$ 20,559,023	\$ 71,855,501	\$ 459,492

City of Lincoln Park, Michigan

Governmental Funds Balance Sheet June 30, 2003

	Major Funds			Total
	General	Community	Other Nonmajor	Governmental
	Fund	Development	Funds	Funds
		Block Grant		
Assets				
Cash and cash equivalents (Note 3)	\$ 2,022,629	\$ 557,297	\$ 3,908,848	\$ 6,488,774
Receivables:				
Taxes	967,816	-	278,006	1,245,822
Accrued interest and other	383,489	-	2,267	385,756
Due from other governmental units	1,915,365	368,193	399,758	2,683,316
Due from other funds (Note 6)	2,084,514	-	288,131	2,372,645
Deposits and other assets	14,119	-	-	14,119
Inventories	147,065	-	-	147,065
Total assets	<u>\$ 7,534,997</u>	<u>\$ 925,490</u>	<u>\$ 4,877,010</u>	<u>\$ 13,337,497</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 673,818	\$ 53,430	\$ 665,405	\$ 1,392,653
Accrued and other liabilities	1,503,958	538	44,780	1,549,276
Due to other funds (Note 6)	35,856	233,990	1,008,485	1,278,331
Deferred revenue (Note 4)	124,550	637,532	150,406	912,488
Total liabilities	2,338,182	925,490	1,869,076	5,132,748
Fund Balances				
Reserved for inventories	147,065	-	-	147,065
Designated - Reported in:				
General Fund (Note 16)	561,958	-	-	561,958
Capital Projects Fund (Note 16)	-	-	59,893	59,893
Unreserved - Reported in:				
General Fund	4,487,792	-	-	4,487,792
Special Revenue Funds	-	-	1,434,278	1,434,278
Debt Service Funds	-	-	916,744	916,744
Capital Projects Fund	-	-	597,019	597,019
Total fund balances	<u>5,196,815</u>	<u>-</u>	<u>3,007,934</u>	<u>8,204,749</u>
Total liabilities and fund balances	<u>\$ 7,534,997</u>	<u>\$ 925,490</u>	<u>\$ 4,877,010</u>	<u>\$ 13,337,497</u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2003

Fund Balance - Total Governmental Funds	\$ 8,204,749
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	46,871,545
Special assessment and grant receivables are expected to be collected over several years, and are not available to pay for current year expenditures	190,406
Personal property receivables are expected to be collected over several years, and are not available to pay for current year expenditures	194,232
Accrued interest payable is recorded as a liability in governmental activities	(18,016)
Compensated absences are included as a liability in governmental activities	(2,436,437)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds	<u>(1,710,001)</u>

Net Assets - Governmental Activities	<u>\$ 51,296,478</u>
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City of Lincoln Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2003

	Major Funds			Total
	General	Community	Other Nonmajor	Total
	Fund	Development	Funds	Governmental
		Block Grant		Funds
Revenue				
Property taxes	\$ 12,175,271	\$ -	\$ 2,620,353	\$ 14,795,624
Federal sources	157,595	1,133,384	-	1,290,979
State sources	6,190,671	-	2,314,948	8,505,619
Licenses and permits	2,708,737	-	-	2,708,737
Fines and forfeitures	1,520,255	-	-	1,520,255
Interest and rentals	197,008	-	53,598	250,606
Other	704,577	297,253	68,726	1,070,556
Total revenue	23,654,114	1,430,637	5,057,625	30,142,376
Expenditures				
Current:				
General government	3,842,903	-	-	3,842,903
Public safety	13,683,049	-	42,402	13,725,451
Public works	3,872,831	-	4,972,573	8,845,404
Community development	-	1,430,637	-	1,430,637
Recreation and culture	1,918,734	-	-	1,918,734
Debt service	-	-	511,657	511,657
Capital outlay	-	-	586,871	586,871
Total expenditures	23,317,517	1,430,637	6,113,503	30,861,657
Excess of Revenue Over (Under) Expenditures	336,597	-	(1,055,878)	(719,281)
Other Financing Sources (Uses)				
Transfers in	60,000	-	139,963	199,963
Transfers out	(139,963)	-	(60,000)	(199,963)
Total other financing sources (uses)	(79,963)	-	79,963	-
Net Change in Fund Balances	256,634	-	(975,915)	(719,281)
Fund Balances - Beginning of year	4,940,181	-	3,983,849	8,924,030
Fund Balances - End of year	<u>\$ 5,196,815</u>	<u>\$ -</u>	<u>\$ 3,007,934</u>	<u>\$ 8,204,749</u>

City of Lincoln Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (719,281)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 2,205,829

Capital assets used in governmental activities are not considered financial resources; as such, depreciation recorded on those assets is not considered an activity of the funds (3,855,042)

Personal property tax revenues are recorded in the statement of activities when assessed; they are not reported in the funds until collected or collectible within 60 days of year end 91,509

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (44,010)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 772,121

Increase in contingent liability for personal property tax refunds is recorded when incurred in the statement of activities (290,000)

Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred 4,386

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (34,930)

Change in Net Assets of Governmental Activities \$ (1,869,418)

City of Lincoln Park, Michigan

Proprietary Funds Statement of Net Assets June 30, 2003

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 1,449,150	\$ 2,279	\$ 1,451,429
Receivables:			
Taxes	97,105	-	97,105
Customers	2,228,250	-	2,228,250
Other	2,121	-	2,121
Due from other funds (Note 6)	-	171,286	171,286
Inventories	47,792	-	47,792
Total current assets	3,824,418	173,565	3,997,983
Long-term assets:			
Restricted assets (Note 8)	3,156,538	-	3,156,538
Capital assets (Note 5)	31,252,490	-	31,252,490
Total assets	38,233,446	173,565	38,407,011
Liabilities			
Current liabilities:			
Accounts payable	619,060	2,315	621,375
Accrued and other liabilities	126,739	-	126,739
Due to other funds (Note 6)	1,172,916	92,684	1,265,600
Current liabilities payable from restricted assets (Note 8)	991,905	-	991,905
Total current liabilities	2,910,620	94,999	3,005,619
Long-term debt - Net of current portion (Note 7)	14,842,369	-	14,842,369
Total liabilities	17,752,989	94,999	17,847,988
Net Assets			
Invested in capital assets - Net of related debt	17,059,150	-	17,059,150
Restricted (Note 8)	1,515,604	-	1,515,604
Unrestricted and undesignated	1,905,703	78,566	1,984,269
Total net assets	<u>\$ 20,480,457</u>	<u>\$ 78,566</u>	<u>\$ 20,559,023</u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2003

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
Operating Revenue			
Sale of water	\$ 1,958,560	\$ -	\$ 1,958,560
Sewage disposal charges	3,350,034	-	3,350,034
Other	616,369	-	616,369
Total operating revenue	5,924,963	-	5,924,963
Operating Expenses			
Cost of water	1,162,605	-	1,162,605
Cost of sewage disposal	1,797,108	-	1,797,108
Operation and maintenance	350,162	-	350,162
General and administrative	1,311,687	1,855	1,313,542
Depreciation	995,099	-	995,099
Other	281,249	60	281,309
Total operating expenses	5,897,910	1,915	5,899,825
Operating Income (Loss)	27,053	(1,915)	25,138
Nonoperating Revenue (Expense)			
Property taxes	1,648,906	-	1,648,906
Investment income	60,127	-	60,127
Interest expense	(802,135)	-	(802,135)
Total nonoperating revenue	906,898	-	906,898
Change in Net Assets	933,951	(1,915)	932,036
Net Assets - Beginning of year, as restated (Note 15)	19,546,506	80,481	19,626,987
Net Assets - End of year	<u><u>\$ 20,480,457</u></u>	<u><u>\$ 78,566</u></u>	<u><u>\$ 20,559,023</u></u>

City of Lincoln Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2003

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 4,915,863	\$ -	\$ 4,915,863
Payment to suppliers	(2,678,693)	-	(2,678,693)
Payments to employees for wages and benefits	(1,320,124)	-	(1,320,124)
Other receipts	616,369	-	616,369
Net cash provided by operating activities	1,533,415	-	1,533,415
Cash Flows from Capital and Related Financing Activities			
Collection of property taxes	1,680,596	-	1,680,596
Payment to County Debt Service Fund	(955,790)	-	(955,790)
Purchase of capital assets	(506,215)	-	(506,215)
Principal paid on debt	(913,694)	-	(913,694)
Interest paid on debt	(393,532)	-	(393,532)
Net cash used in capital and related financing activities	(1,088,635)	-	(1,088,635)
Cash Flows from Investing Activities - Interest received on investments	32,738	-	32,738
Net Increase in Cash and Cash Equivalents	477,518	-	477,518
Cash and Cash Equivalents - July 1, 2002	2,225,334	2,279	2,227,613
Cash and Cash Equivalents - June 30, 2003	<u>\$ 2,702,852</u>	<u>\$ 2,279</u>	<u>\$ 2,705,131</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 1,449,150	\$ 2,279	\$ 1,451,429
Restricted assets (Note 8)	1,253,702	-	1,253,702
Total	<u>\$ 2,702,852</u>	<u>\$ 2,279</u>	<u>\$ 2,705,131</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 27,053	\$ (1,915)	\$ 25,138
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	995,099	-	995,099
Changes in assets and liabilities:			
Increase in receivables	(91,987)	-	(91,987)
Decrease in due from other funds	47,882	-	47,882
Increase in investment in County	(295,483)	-	(295,483)
Decrease in accounts payable	(5,798)	-	(5,798)
Increase in due to other funds	866,895	1,915	868,810
Decrease in accrued and other liabilities	(10,246)	-	(10,246)
Net cash provided by operating activities	<u>\$ 1,533,415</u>	<u>\$ -</u>	<u>\$ 1,533,415</u>

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 2,667	\$ 8,013
Investments (Note 3)	56,773,797	-
Accrued interest	316,029	-
Total assets	57,092,493	<u>\$ 8,013</u>
Liabilities - Accrued and other liabilities	<u>23,779</u>	<u>\$ 8,013</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 57,068,714</u>	

City of Lincoln Park, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2003

	Pension and Other Employee Benefits
Additions	
Contributions:	
Employer	\$ 1,516,767
Plan members	902,379
Health benefit	<u>285,310</u>
Total contributions	2,704,456
Investment earnings:	
Net decrease in fair value of investments	(92,216)
Interest and dividends	<u>1,082,773</u>
Total investment earnings	<u>990,557</u>
Total additions	3,695,013
Deductions	
Benefit payments	4,295,921
Refunds of contributions	514,034
Administrative expenses	<u>82,124</u>
Total deductions	<u>4,892,079</u>
Net Decrease in Plan Net Assets	(1,197,066)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>58,265,780</u>
End of year	<u><u>\$ 57,068,714</u></u>

City of Lincoln Park, Michigan

Component Units Statement of Net Assets June 30, 2003

	Downtown Development Authority	Economic Development Corporation	Totals
Assets			
Cash and cash equivalents (Note 3)	\$ 226,893	\$ 259,981	\$ 486,874
Accrued interest and other	-	131,050	131,050
Due from other governmental units	41,608	-	41,608
Total assets	268,501	391,031	659,532
Liabilities			
Due to other governmental units	-	68,990	68,990
Deferred revenue	-	131,050	131,050
Total liabilities	-	200,040	200,040
Net Assets	\$ 268,501	\$ 190,991	\$ 459,492

City of Lincoln Park, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Governmental activities:			
Economic Development Corporation	\$ 52,817	\$ 10,876	\$ -
Downtown Development Authority	<u>220,125</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 272,942</u>	<u>\$ 10,876</u>	<u>\$ -</u>

General revenues:

Property taxes

Interest

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ -	\$ (41,941)	\$ (41,941)
<u>(220,125)</u>	<u>-</u>	<u>(220,125)</u>
(220,125)	(41,941)	(262,066)
208,039	-	208,039
3,641	5,011	8,652
<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
221,680	(4,989)	216,691
1,555	(46,930)	(45,375)
<u>266,946</u>	<u>237,921</u>	<u>504,867</u>
<u>\$ 268,501</u>	<u>\$ 190,991</u>	<u>\$ 459,492</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Lincoln Park, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

Reporting Entity

The City of Lincoln Park, Michigan is governed by an elected six-member Council and the mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Units

- a. The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings.
- b. The City of Lincoln Park Police and Fire Retirement System and Municipal Employees’ Retirement System have also been blended into the City’s financial statements. Both systems are governed by five-member pension boards. The mayor and one City Council member sit on each board. Two members of the Board are elected by the participants. In addition, the City Council appoints one City resident to each board. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems.

Discretely Presented Component Units

- a. The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of eight individuals, is appointed by the mayor. The appointment is subject to approval by the City Council. In addition, the Authority’s budget is subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

- b. The Economic Development Corporation (EDC) is reported in a separate column to emphasize that it is legally separate from the City. The EDC was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council and mayor.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Housing Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds, fiduciary funds, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following two major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for the resources of federal grant revenues, which are restricted for use in assisting the City with community development.

Note 1 - Summary of Significant Accounting Policies (Continued)

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds - Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Capital Projects Fund - The Capital Projects Fund is used to account for the development of capital facilities other than those financed by the operations of the Enterprise Fund.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Police and Fire Retirement System, the Municipal Employees' Retirement System, and the retirees' health benefit fund, which accumulate resources for pension and post-retirement health benefit payments to qualified police and fire and municipal employees.

Agency Funds - The Agency Funds are used to account for assets held by the City in a trustee capacity for other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has not elected to apply private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

Property Taxes - Properties are assessed as of December 1. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. The taxes are due on February 28 before they are added to the county tax rolls. Property tax receivables are shown net of allowance for uncollectible amounts.

The 2002 taxable valuation of the City totaled \$623.9 million, on which ad valorem taxes levied consisted of 16.6174 mills for the City's operating purposes, 2.4925 mills for refuse, 2.8191 mills for road construction, 1.5000 mills for water main repair debt, 1.4000 mills for Ecorse Creek debt, and 1.2700 mills for Downriver Sewage Disposal System debt. The ad valorem taxes levied are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Inventories - Inventories are valued at cost, on a first-in, first-out basis. General Fund fund balance has been reserved in an amount equal to the cost of the inventory. The inventory includes gasoline and supplies for machinery and equipment.

Restricted Assets - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents restricted to provide for the replacement of water and sewer assets. Also, monies received from a tax levy are restricted for the payment of outstanding Water and Sewer Fund debt. In addition, restricted assets result from the establishment of debt reserves related to county sewage disposal system bonds.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City using different individual costs and estimated useful lives, depending on the different asset uses and classifications. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has not capitalized any City-owned land.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Water and sewer distribution systems	20-75 years
Buildings and building improvements	10-45 years
Vehicles	5-20 years
Machinery and equipment	10-45 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law.

The budget process begins with goals and objectives meetings in April with the City Council and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and City Council, goals and objectives are prioritized by City Council for the next fiscal year.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Each April, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the controller in May. The controller then analyzes these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed, balanced budget is then developed to support the direction and focus established for the community by City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in May, provide all interested citizens an open forum where they can be heard. Upon review and a subsequent public hearing, the Council adopts the proposed budget by resolution.

The budget is scheduled for adoption at the first regular City Council meeting in June. The operating millage rate is established as part of the budget adoption resolution at that meeting.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

The budget has been prepared in accordance with generally accepted accounting principles, with the following exception:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".

The budget comparison for the General Fund, as adopted by the City Council, is included as required supplemental information. The budget comparison for the major Special Revenue Fund is included as other supplemental information. Budget comparisons for other Special Revenue Funds (except for the Retirees' Health Benefit Fund and Compensated Absences Fund, which were not budgeted) are available at City Hall.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Lincoln Park, Michigan's General Fund incurred significant expenditures that were in excess of the amounts budgeted related to public safety. Additional revenues and expenditures were recorded as a result of State grant monies, received in previous years, and used in the current year. In addition, monies were collected in previous years and held for future public safety use. Current year activity related to both items was not budgeted. As a result, General Fund revenues recorded are also in excess of budget.

Noncompliance with Legal or Contractual Provisions - The Treasurer's office failed to remit taxes collected subsequent to June 30, 2003 and related to the 2003 tax year on a timely basis due to computer system issues. As of the date of the opinion, the system issue has been resolved and the Treasurer's office is now distributing tax collections in a timely manner.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The City of Lincoln Park, Michigan's deposits and investment policies are in accordance with statutory authority.

The retirement funds are also authorized by various State of Michigan laws to invest in certain corporate equity or debt instruments and certain other specified investment vehicles.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 6,488,774	\$ 1,451,429	\$ 10,680	\$ 7,950,883	\$ 486,874
Investments	-	-	56,773,797	56,773,797	-
Restricted assets (Note 8)	-	1,253,702	-	1,253,702	-
Total	<u>\$ 6,488,774</u>	<u>\$ 2,705,131</u>	<u>\$ 56,784,477</u>	<u>\$ 65,978,382</u>	<u>\$ 486,874</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,240,185	\$ 247,893
Investments in securities, mutual funds, and similar vehicles	62,735,832	238,981
Petty cash or cash on hand	<u>2,365</u>	<u>-</u>
Total	<u>\$ 65,978,382</u>	<u>\$ 486,874</u>

The bank balance of the City's deposits is \$3,325,225, of which \$100,000 is covered by federal depository insurance. The cash and investments of the City's component units consist of bank deposits of \$247,893. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$126,473, all of which was covered by federal depository insurance. The City of Lincoln Park, Michigan believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City Council evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The City's investments are categorized below to give an indication of the level of risk assumed by the City at June 30, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty or
- b. The counterparty's trust department (or agent) but not in the City's name

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 10,967,015	\$ -	\$ 10,967,015
U.S. government securities	-	9,647,806	-	9,647,806
Common and preferred stock	-	30,833,146	-	30,833,146
Subtotal	<u>\$ -</u>	<u>\$ 51,447,967</u>	<u>\$ -</u>	51,447,967
Investments not subject to categorization:				
Bank investment pool funds				5,962,035
Mutual funds				<u>5,325,830</u>
Total primary government				<u>\$ 62,735,832</u>
Component units - Bank investment pool funds				<u>\$ 238,981</u>

The bank investment pools and the mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Note 3 - Deposits and Investments (Continued)

The corporate stocks and bonds are all held by the retirement systems. Management believes that the investments in the funds comply with the investment authority noted above.

Included in the City's investments at June 30, 2003 are the following:

- Approximately \$845,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$5,117,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$1,149,000. These securities are backed by credit card receivables. These obligations typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 150,406	\$ -
Grant and program income payments received prior to meeting all eligibility requirements	-	722,082
Grant reimbursement not available	40,000	-
Total	<u>\$ 190,406</u>	<u>\$ 722,082</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Capital assets being depreciated:				
Roads and sidewalks	\$ 88,386,000	\$ 1,603,229	\$ -	\$ 89,989,229
Buildings and improvements	5,993,585	-	-	5,993,585
Vehicles	3,909,379	429,107	342,722	3,995,764
Equipment	4,955,286	173,493	188,810	4,939,969
Subtotal	103,244,250	2,205,829	531,532	104,918,547
Accumulated depreciation:				
Roads and sidewalks	45,192,800	3,069,840	-	48,262,640
Buildings and improvements	4,426,024	77,511	-	4,503,535
Vehicles	2,569,565	287,933	342,722	2,514,776
Equipment	2,535,103	419,758	188,810	2,766,051
Subtotal	54,723,492	3,855,042	531,532	58,047,002
Net capital assets being depreciated	<u>\$ 48,520,758</u>	<u>\$ (1,649,213)</u>	<u>\$ -</u>	<u>\$ 46,871,545</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2002	Prior Period Adjustments (See Note 16)	Additions	Disposals	Balance June 30, 2003
Capital assets not being depreciated -					
Land	\$ 16,540	\$ -	\$ -	\$ -	\$ 16,540
Capital assets being depreciated:					
Water and sewer distribution systems	29,827,836	10,178,784	263,245	-	40,269,865
Buildings and building improvements	1,191,234	302,590	-	-	1,493,824
Vehicles	317,249	-	190,524	-	507,773
Machinery and equipment	1,540,866	733,717	52,446	-	2,327,029
Subtotal	32,877,185	11,215,091	506,215	-	44,598,491
Accumulated depreciation:					
Water and sewer distribution systems	6,807,611	3,416,667	857,063	-	11,081,341
Buildings and building improvements	1,085,010	151,849	33,195	-	1,270,054
Vehicles	83,343	-	49,718	-	133,061
Machinery and equipment	564,072	258,890	55,123	-	878,085
Subtotal	8,540,036	3,827,406	995,099	-	13,362,541
Net capital assets being depreciated	24,337,149	7,387,685	(488,884)	-	31,235,950
Net capital assets	\$ 24,353,689	\$ 7,387,685	\$ (488,884)	\$ -	\$ 31,252,490

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 52,093
Public safety	287,537
Public works	3,295,527
Recreation and culture	219,885
Total governmental activities	<u>\$ 3,855,042</u>
Business-type activities - Water and sewer	<u>\$ 995,099</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Capital Assets (Continued)

Commitments - The City has active construction projects at year end. The projects include various road reconstruction and parking lot improvement projects. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Fort Park reconstruction	\$ 138,223	\$ 879,724
Richmond Howard improvements	306,849	177,034
Emmons improvements	159,535	370,762
I-75/Southfield Road improvements	419,504	716,764
Community Center and municipal parking lot improvements	-	575,393
Total	<u>\$ 1,024,111</u>	<u>\$ 2,719,677</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Community Development Block Grant Fund	\$ 233,990
	Water and Sewer Fund	1,172,916
	Other nonmajor governmental funds	677,608
	Total General Fund	2,084,514
Other nonmajor governmental funds:		
Special Revenue Funds:		
Major Streets Fund	Other nonmajor governmental funds	235,131
Street Improvement Fund	Other nonmajor governmental funds	17,144
	Total Special Revenue Funds	252,275
Debt Service Funds - Water Bond Debt	General Fund	35,856
	Total other nonmajor governmental funds	288,131
Proprietary Fund - Development Fund	Other nonmajor governmental funds	171,286
	Total	<u>\$ 2,543,931</u>

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in:			
General Fund	\$ -	\$ 60,000	\$ 60,000
Nonmajor governmental funds (I)	139,963	-	139,963
Total	<u>\$ 139,963</u>	<u>\$ 60,000</u>	<u>\$ 199,963</u>

(I) Transfers for debt service

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Prior Period Adjustment (See Note 16)	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Water main refunding bonds:							
Amount of issue - \$6,385,000							
Maturing through 2003	4.35%	\$355,000	\$ 700,000	\$ -	\$ (345,000)	\$ 355,000	\$ 355,000
Building Authority bonds:							
Amount of issue - \$1,350,000							
Maturing through 2003	7.80%	\$125,000	250,000	-	(125,000)	125,000	125,000
Ecorse Creek Pollution Bond - Phase III:							
Amount of issue - \$10,250,000							
Maturing through 2012	5.00%	-	1,500,000	(1,500,000)	-	-	-
Ecorse Creek #1 Phase III:							
Amount of issue - \$8,295,000	5.30% -						
Maturing through 2010	6.0%	-	5,260,000	(5,260,000)	-	-	-
Total bond obligations			7,710,000	(6,760,000)	(470,000)	480,000	480,000

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt (Continued)

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Prior Period Adjustment (See Note 16)	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities (Continued):							
Other long-term obligations:							
Roofing installment purchase agreement:							
Amount of issue - \$284,173							
Maturing through 2003	5.25	-	\$ 36,000	\$ -	\$ (36,000)	\$ -	\$ -
Installment purchase agreements:							
Amount of issue - \$1,889,373	4.00% -	\$1,687 -					
Maturing through various dates	7.58%	\$78,415	806,122	-	(266,121)	540,001	161,389
Compensated absences			2,401,507	-	34,930	2,436,437	144,421
Contingent liability - Personal property tax refunds			400,000	-	290,000	690,000	-
Total other long-term obligations			3,643,629	-	22,809	3,666,438	305,810
Total governmental activities			\$ 11,353,629	\$ (6,760,000)	\$ (447,191)	\$ 4,146,438	\$ 785,810
Business-type Activities - General obligation bonds							
Ecorse Creek Pollution Bonds:							
Amount of issue - \$2,698,388							
Maturing through 2003	6.00%	-	\$ 203,652	\$ -	\$ (203,652)	\$ -	\$ -
Ecorse Creek Pollution Abatement Drain No. 1 1994 Refunding Bonds:							
Amount of issue - \$1,397,050							
Maturing through 2002	5.40%	-	195,237	-	(195,237)	-	-
Ecorse Creek Pollution Bond Phase II Refunding Bonds, Series 1987:							
Amount of issue - \$109,530	7.90% -						
Maturing through 2002	8.00%	-	9,955	-	(9,955)	-	-
Ecorse Creek Pollution Bond - Phase III:							
Amount of issue - \$10,250,000							
Maturing through 2012	5.00%	\$750,000	-	1,500,000	-	1,500,000	-
Ecorse Creek #1 Phase III:							
Amount of issue - \$8,295,000	5.30% -	\$485,000 -					
Maturing through 2010	6.0%	\$750,000	-	5,260,000	(490,000)	4,770,000	485,000
Downriver Sewage Disposal Bonds:							
Amount of issue - \$11,797,444	2.00% -	\$62 -					
Maturing through various dates	2.50%	\$314,437	10,081,568	-	(517,294)	9,564,274	506,905
Less deferred amount on refunding			(8,853)	-	(8,853)	-	-
Total business-type activities			\$ 10,481,559	\$ 6,760,000	\$ (1,424,991)	\$ 15,834,274	\$ 991,905

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2003

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above debt obligations are as follows (excludes compensated absence and contingent liabilities on personal property tax refunds):

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 641,389	\$ 35,851	\$ 677,240	\$ 991,905	\$ 585,995	\$ 1,577,900
2005	84,530	16,404	100,934	1,050,125	545,299	1,595,424
2006	86,156	12,629	98,785	1,054,128	502,264	1,556,392
2007	87,853	8,781	96,634	1,063,147	458,790	1,521,937
2008	70,343	5,211	75,554	1,067,673	414,829	1,482,502
2009-2013	49,730	2,582	52,312	6,759,478	1,227,236	7,986,714
2014-2018	-	-	-	3,045,976	306,123	3,352,099
2019-2021	-	-	-	801,842	17,848	819,690
Total	<u>\$ 1,020,001</u>	<u>\$ 81,458</u>	<u>\$ 1,101,459</u>	<u>\$ 15,834,274</u>	<u>\$ 4,058,384</u>	<u>\$ 19,892,658</u>

In prior years, the City defeased a portion of the 1994 Series A Downriver Sewage Disposal System Bonds by placing refunding bond proceeds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the general purpose financial statements.

Note 8 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of Enterprise Fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding Enterprise Fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2003 consist of the following:

Cash and cash equivalents:

Ecorse Creek replacement reserve	\$ 1,000,000
Enterprise Fund debt service	33,581
Water and sewer capital improvement	90,987
Water and sewer replacement reserve	105,053
Sewer improvement reserve	<u>24,081</u>

Total cash and cash equivalents 1,253,702

Note 8 - Restricted Assets (Continued)

Wayne County sewage disposal system:

Assets held at the County for future debt payments	\$ 1,607,353
Sewer operation reserve	<u>295,483</u>

Total restricted assets	<u>\$ 3,156,538</u>
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Current liabilities to be paid from restricted assets of \$991,905 at June 30, 2003 consist of the current portion of the Ecorse Creek pollution bonds and the Downriver Sewage Disposal System (Series A&B and State Revolving Fund) bonds, which are to be paid from debt levy revenue.

Net assets have been reserved for \$1,515,604, which represents restricted assets arising from the Enterprise Fund capital improvement charges, asset replacement reserve, and operation reserves.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Police and Fire Retirement System and the Municipal Employees' Retirement System are single-employer defined benefit pension plans that are administered by the City of Lincoln Park, Michigan. These plans cover all full-time police and fire employees and general employees of the City. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of the following:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>104</u>	<u>123</u>
Current employees:		
Fully vested	61	65
Nonvested	<u>36</u>	<u>49</u>
Total current employees	<u>97</u>	<u>114</u>

The plans do not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the systems for these employees was established by City ordinance and negotiation with the police, fire, and general employees' competitive bargaining units and requires a contribution from the employees of 8.20 percent of qualifying wages for police and fire employees and 8.41 percent of qualifying wages for general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plans are financed through investment earnings.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Costs - For the year ended June 30, 2003, the City's annual pension cost was as follows (rounded to the nearest thousand):

	Police and Fire Retirement System	Municipal Employees' Retirement System
Annual pension cost	\$ 683,000	\$ 833,000
Actual and required contribution	683,000	833,000

The annual required contributions were determined as part of an actuarial valuation at June 30, 2002, using the entry age cost method for both the Police and Fire Retirement System and the Municipal Employees' Retirement System. Significant actuarial assumptions for both systems include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent to 8.3 percent per year; and (iii) 4.5 percent per year cost of living adjustments. Both plans assume that benefits will not increase after retirement, with the exception of police members retiring after January 1, 1996. These employees will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Reserves - As of June 30, 2003, the plans' legally required reserves have been fully funded as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Reserve for employees' contribution	\$ 11,297,894	\$ 7,555,768
Reserve for retired benefit payments	17,807,605	9,129,799

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2001	2002	2003
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 892,000	\$ 841,000	\$ 833,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 551,000	\$ 631,000	\$ 683,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Amounts are rounded to the nearest thousand.

Note 11 - Other Postemployment Benefits

The City provides health care benefits to all employees covered by the Police and Fire Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, 218 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the General Fund, Water Fund, Major and Local Streets Funds, and Community Development Block Grant Fund as the insurance premiums become due; during the year, this totaled approximately \$1,089,000.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2002	\$ (300,675)
Building permit revenue	362,811
Related direct expenditures	<u>(415,865)</u>
Cumulative shortfall - June 30, 2003	<u>\$ (353,729)</u>

Note 13 - Contingent Liability

In prior years, the City was involved in litigation related to the flooding of the basements of citizens and a contract dispute with a developer. However, events in these matters have not yet progressed to the point where legal determination can be made as to the ultimate disposition of these contingencies. Accordingly, no provision has been made in the accompanying financial statements for the ultimate cost, if any, related to this matter.

Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$14,000,000. To date, the City has issued bonds of approximately \$12,000,000 to finance construction. The remaining liability to the City is estimated to be approximately \$2,000,000. The bonds are being paid through a court-ordered judgment levy.

Note 15 - New Reporting Model

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

As a result of implementing GASB 34, the Retiree Health Benefit Fund was reclassified from a Special Revenue Fund to a Trust Fund. These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of infrastructure in the current year.

Note 15 - New Reporting Model (Continued)

In addition to the above-mentioned changes, adjustments were made to the City's Water and Sewer Enterprise Fund net assets and certain governmental funds' fund balance. Debt service related to certain bonds issued in prior years for the Ecorse Creek pollution retention basin had been accounted for in a Debt Service Fund. These bonds are directly related to the City's sewer system; therefore, the City transferred the activity and assets from the Debt Service Fund to the Water and Sewer Fund. Cumulative tax levies collected in excess of debt service payments are restricted within the Water and Sewer Fund for future debt service payments. In addition, certain capital assets associated with these bonds were not previously recorded as assets in the City's financial statements. These capital assets have now been recorded at their net book value within the Water and Sewer Fund. As a result of these adjustments, net assets as of the beginning of the year have been restated as follows:

	Governmental Activities	Business-type Activities
Balance - June 30, 2002 - As stated prior to adjustment	\$ 46,757,514	\$ 18,647,686
Capital assets additions	-	7,387,683
Retention basin Debt Service Fund reclassification	(351,618)	351,618
Long-term debt reclassification	<u>6,760,000</u>	<u>(6,760,000)</u>
Balance - June 30, 2002 - As restated	<u>\$ 53,165,896</u>	<u>\$ 19,626,987</u>

Note 16 - Designated Fund Balance

The fund balances of the following funds have been designated as follows:

General Fund:

Police department donations - Cable commission	\$ 25,000
Future capital outlay	130,000
Future State revenue source reductions	183,000
Potential claims	<u>223,958</u>

Total General Fund	561,958
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Capital Projects Funds - Future capital outlay	<u>59,893</u>
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Total	<u><u>\$ 621,851</u></u>
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Required Supplemental Information

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 4,940,181	\$ 4,940,181	\$ 4,940,181	\$ -
Resources (Inflows)				
Property taxes:				
Real and personal property taxes	10,606,400	10,506,400	10,611,540	105,140
Garbage and rubbish	1,540,000	1,540,000	1,524,494	(15,506)
Payments in lieu of taxes	52,990	25,490	39,237	13,747
Total property taxes	12,199,390	12,071,890	12,175,271	103,381
Federal sources	13,200	8,800	157,595	148,795
State sources:				
Revenue-sharing	6,365,000	5,813,695	6,025,994	212,299
State grants	143,000	143,330	144,645	1,315
Liquor license fees	20,000	20,130	20,032	(98)
Total State sources	6,528,000	5,977,155	6,190,671	213,516
Licenses and permits:				
Building, electrical, heating, and plumbing permits	440,405	625,700	618,920	(6,780)
Recreation programs	521,900	477,300	488,284	10,984
Motor pool rentals	797,000	741,610	902,445	160,835
Cable television franchise fee	300,000	361,370	421,489	60,119
Rental and inspection	95,000	155,370	155,450	80
Recycling and composting	122,000	122,000	122,149	149
Total licenses and permits	2,276,305	2,483,350	2,708,737	225,387
Fines and forfeitures	1,200,310	1,273,015	1,520,255	247,240
Interest and rent	250,000	180,550	197,008	16,458
Transfer from other funds	9,000	39,000	60,000	21,000
Other	838,100	915,530	704,577	(210,953)
Total available for appropriation	28,254,486	27,889,471	28,654,295	764,824
Charges to Appropriations (Outflows)				
General government:				
General government	2,073,195	2,148,340	2,197,079	(48,739)
Mayor and Council	132,850	131,810	135,054	(3,244)
City Clerk	175,020	180,790	178,048	2,742
Election Commission	63,540	51,590	46,850	4,740
City Assessor	97,510	110,050	108,852	1,198
City Attorney	174,910	199,380	196,679	2,701
City Controller	325,740	315,950	315,756	194
Personnel and purchasing	222,555	230,700	224,989	5,711
Treasury department	250,200	250,930	249,753	1,177
Municipal building	134,535	129,530	120,838	8,692
Rental inspection	104,765	73,320	69,005	4,315
Total general government	3,754,820	3,822,390	3,842,903	(20,513)

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public safety:				
Police	\$ 7,253,610	\$ 7,482,440	\$ 7,698,050	\$ (215,610)
Fire	3,861,640	4,000,090	3,992,304	7,786
Civil defense	83,260	79,310	76,512	2,798
Building department	481,345	428,980	427,903	1,077
District Court	<u>1,453,680</u>	<u>1,488,280</u>	<u>1,488,280</u>	<u>-</u>
Total public safety	13,133,535	13,479,100	13,683,049	(203,949)
Public works:				
Department of Public Works	1,413,245	1,538,260	1,517,571	20,689
Planning Commission	8,200	8,500	4,027	4,473
Motor pool	133,235	77,322	(18,813)	96,135
Sidewalks	174,720	189,700	189,701	(1)
Street lighting	505,000	433,600	429,670	3,930
Sanitation	<u>1,792,700</u>	<u>1,756,720</u>	<u>1,750,675</u>	<u>6,045</u>
Total public works	4,027,100	4,004,102	3,872,831	131,271
Recreation and culture:				
Kennedy Memorial Building	80,250	66,540	63,150	3,390
Historical Museum	23,000	23,000	23,000	-
Parks	524,260	482,520	450,972	31,548
Recreation and culture	410,860	391,200	383,799	7,401
Library	286,480	224,260	141,258	83,002
Social services	192,800	249,860	223,260	26,600
Community Center	542,880	499,890	483,385	16,505
Senior citizens	<u>203,350</u>	<u>156,420</u>	<u>149,910</u>	<u>6,510</u>
Total recreation and culture	2,263,880	2,093,690	1,918,734	174,956
Transfers to other funds	<u>134,970</u>	<u>134,970</u>	<u>139,963</u>	<u>(4,993)</u>
Total charges to appropriations	<u>23,314,305</u>	<u>23,534,252</u>	<u>23,457,480</u>	<u>76,772</u>
Fund Balance - End of year	<u>\$ 4,940,181</u>	<u>\$ 4,355,219</u>	<u>\$ 5,196,815</u>	<u>\$ 841,596</u>

City of Lincoln Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Community Development Block Grant Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Federal sources	2,216,487	2,216,487	1,133,384	(1,083,103)
Other	-	-	297,253	297,253
Total available for appropriation	2,216,487	2,216,487	1,430,637	(785,850)
Charges to Appropriations (Outflows) -				
Health and welfare	2,216,487	2,216,487	1,430,637	785,850
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Lincoln Park, Michigan

Required Supplementary Information Retirement Systems Schedule of Funding Progress Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 16,470,000	\$ 27,233,000	\$ 10,763,000	60	\$ 4,133,000	260
06/30/98	18,468,000	29,125,000	10,657,000	63	4,332,000	246
06/30/99	19,553,000	29,482,000	9,929,000	66	4,600,000	216
06/30/00	20,997,000	29,888,000	8,891,000	70	4,642,000	192
06/30/01	21,783,000	30,193,000	8,410,000	72	4,837,000	174
06/30/02	21,612,000	30,844,000	9,232,000	70	4,936,000	187

Retirement Systems Schedule of Employer Contributions Municipal Employees' Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
1998	\$ 806,000	\$ 806,000	100.00
1999	833,000	833,000	100.00
2000	906,000	906,000	100.00
2001	892,000	892,000	100.00
2002	841,000	841,000	100.00
2003	833,000	833,000	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 3.8%

City of Lincoln Park, Michigan

Required Supplementary Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 34,396,000	\$ 35,628,000	\$ 1,232,000	96	\$ 4,979,000	25
06/30/98	39,240,000	38,721,000	(519,000)	101	5,070,000	-
06/30/99	42,067,000	39,734,000	(2,333,000)	106	5,171,000	-
06/30/00	45,090,000	42,431,000	(2,659,000)	106	5,231,000	-
06/30/01	46,725,000	44,235,000	(2,490,000)	106	5,366,000	-
06/30/02	46,939,000	46,333,000	(606,000)	101	5,611,000	-

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
1998	\$ 700,000	\$ 700,000	100.00
1999	740,000	740,000	100.00
2000	651,000	651,000	100.00
2001	551,000	551,000	100.00
2002	631,000	631,000	100.00
2003	683,000	683,000	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 3.8%

Other Supplemental Information

City of Lincoln Park, Michigan

	Special Revenue Funds			
	Major Roads	Local Roads	Street Improvement	Compensated Absences
Assets				
Cash and cash equivalents	\$ 560,106	\$ 429,550	\$ 433,298	\$ 760,390
Receivables:				
Taxes	-	-	84,262	-
Accrued interest and other	-	-	-	-
Due from other governmental units	299,819	99,939	-	-
Due from other funds	235,131	-	17,144	-
Total assets	<u>\$ 1,095,056</u>	<u>\$ 529,489</u>	<u>\$ 534,704</u>	<u>\$ 760,390</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 179,962	\$ 6,238	\$ 476,401	\$ -
Accrued and other liabilities	37,858	6,922	-	-
Due to other funds	363,616	409,367	4,997	-
Deferred revenue	-	-	-	-
Total liabilities	581,436	422,527	481,398	-
Fund Balances				
Designated for capital expenditures	-	-	-	-
Undesignated	513,620	106,962	53,306	760,390
Total fund balances	513,620	106,962	53,306	760,390
Total liabilities and fund balances	<u>\$ 1,095,056</u>	<u>\$ 529,489</u>	<u>\$ 534,704</u>	<u>\$ 760,390</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

<u>Debt Service Funds</u>			
			Total Nonmajor Governmental Funds
<u>General Debt</u>	<u>Water Bonds Debt</u>	<u>Capital Projects Fund</u>	
\$ 102,334	\$ 732,949	\$ 890,221	\$ 3,908,848
-	43,338	150,406	278,006
-	2,267	-	2,267
-	-	-	399,758
-	35,856	-	288,131
<u>\$ 102,334</u>	<u>\$ 814,410</u>	<u>\$ 1,040,627</u>	<u>\$ 4,877,010</u>
\$ -	\$ -	\$ 2,804	665,405
-	-	-	44,780
-	-	230,505	1,008,485
-	-	150,406	150,406
-	-	383,715	1,869,076
-	-	59,893	59,893
<u>102,334</u>	<u>814,410</u>	<u>597,019</u>	<u>2,948,041</u>
<u>102,334</u>	<u>814,410</u>	<u>656,912</u>	<u>3,007,934</u>
<u>\$ 102,334</u>	<u>\$ 814,410</u>	<u>\$ 1,040,627</u>	<u>\$ 4,877,010</u>

City of Lincoln Park, Michigan

	Special Revenue Funds			
	Major Roads	Local Roads	Street Improvement	Compensated Absences
Revenue				
Property taxes	\$ -	\$ -	\$ 1,724,346	\$ -
State sources	1,736,212	578,736	-	-
Interest and rentals	9,829	6,977	9,218	8,062
Other	18,536	6,179	-	-
Total revenue	1,764,577	591,892	1,733,564	8,062
Expenditures				
Current - Public safety	-	-	-	42,402
Current - Public works	2,063,593	933,962	1,975,018	-
Debt service	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	2,063,593	933,962	1,975,018	42,402
Excess of Revenue Over (Under) Expenditures	(299,016)	(342,070)	(241,454)	(34,340)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(19,500)	(10,500)	-	-
Total other financing sources (uses)	(19,500)	(10,500)	-	-
Net Change in Fund Balances	(318,516)	(352,570)	(241,454)	(34,340)
Fund Balances - Beginning of year	832,136	459,532	294,760	794,730
Fund Balances - End of year	<u>\$ 513,620</u>	<u>\$ 106,962</u>	<u>\$ 53,306</u>	<u>\$ 760,390</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2003

Debt Service Funds			
General Debt	Water Bonds Debt	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 896,007	\$ -	\$ 2,620,353
-	-	-	2,314,948
1,389	6,333	11,790	53,598
-	-	44,011	68,726
1,389	902,340	55,801	5,057,625
-	-	-	42,402
-	-	-	4,972,573
141,683	369,974	-	511,657
-	-	586,871	586,871
141,683	369,974	586,871	6,113,503
(140,294)	532,366	(531,070)	(1,055,878)
139,963	-	-	139,963
-	-	(30,000)	(60,000)
139,963	-	(30,000)	79,963
(331)	532,366	(561,070)	(975,915)
102,665	282,044	1,217,982	3,983,849
\$ 102,334	\$ 814,410	\$ 656,912	\$ 3,007,934

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2003

	Pension and Other Employee Benefits Trust Funds				Agency Funds		
	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Totals	Current Tax Collection	Payroll	Totals
Assets							
Cash and cash equivalents	\$ 2,667	\$ -	\$ -	\$ 2,667	\$ -	\$ 8,013	\$ 8,013
Investments	36,615,347	17,478,427	2,680,023	56,773,797	-	-	-
Accrued interest	235,303	80,726	-	316,029	-	-	-
Total assets	36,853,317	17,559,153	2,680,023	57,092,493	<u>\$ -</u>	<u>\$ 8,013</u>	<u>\$ 8,013</u>
Liabilities and Net Assets							
Liabilities - Accrued and other liabilities	-	23,779	-	23,779	<u>\$ -</u>	<u>\$ 8,013</u>	<u>\$ 8,013</u>
Net Assets - Held in trust for for pension and other employee benefits	<u>\$ 36,853,317</u>	<u>\$ 17,535,374</u>	<u>\$ 2,680,023</u>	<u>\$ 57,068,714</u>			

City of Lincoln Park, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2003

	Police and Fire Retirement System	Municipal Employees' Retirement System	Retirees' Health Benefit	Totals
Additions				
Contributions:				
Employer	\$ 683,282	\$ 833,485	\$ -	\$ 1,516,767
Plan members	481,937	420,442	-	902,379
Health benefit	-	-	285,310	285,310
Total contributions	1,165,219	1,253,927	285,310	2,704,456
Investment earnings:				
Net increase (decrease) in fair value of investments	(225,177)	103,321	29,640	(92,216)
Interest and dividends	671,834	347,575	63,364	1,082,773
Total investment earnings	446,657	450,896	93,004	990,557
Total additions	1,611,876	1,704,823	378,314	3,695,013
Deductions				
Benefit payments	2,427,467	1,868,454	-	4,295,921
Refunds of contributions	189,937	324,097	-	514,034
Administrative expenses	69,427	12,697	-	82,124
Total deductions	2,686,831	2,205,248	-	4,892,079
Net Increase (Decrease) in Net Assets	(1,074,955)	(500,425)	378,314	(1,197,066)
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	37,928,272	18,035,799	2,301,709	58,265,780
End of year	<u>\$ 36,853,317</u>	<u>\$ 17,535,374</u>	<u>\$ 2,680,023</u>	<u>\$ 57,068,714</u>